

# CITY A.M.

## **A guaranteed minimum income is not a welfare reform silver bullet**

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There is a growing recognition that current social welfare programmes are inadequate at best and counterproductive at worst. The debt and taxes needed to finance these programmes continues to rise, yet far too many people remain trapped in poverty. As a result, there is a growing search for alternatives.

One idea drawing renewed interest across the ideological spectrum is some form of guaranteed national income (GNI). At its most basic, a GNI would provide a flat cash payment to all citizens with few, if any, strings attached. Many on the Left see this as a supplement to existing social welfare programmes, while those on the Right envision it as a replacement.

Switzerland will hold a referendum next year on whether to replace its welfare system with a basic income of 2,500 Swiss francs per month for all adults and 625 Swiss francs for children and young people. In Finland, a right-of-centre government is preparing legislation for a pilot GNI programme. And multiple cities in both the Netherlands and Canada have expressed interest in a GNI experiment.

There is a very strong theoretical case for a guaranteed national income. Such a programme would be simpler and far more transparent than the hodgepodge of existing anti-poverty programmes. Indeed, the UK is already moving in this direction, consolidating six major welfare payments into one streamlined Universal Credit (although the reform has faced some technical problems in implementation).

A GNI would also treat poor people like adults, expecting them to budget and manage their money like everyone else. Currently, most welfare programmes parcel out payments not to the poor themselves, but to those who provide services to the poor, such as landlords or health care providers. But shouldn't the poor decide for themselves how much of their income should be allocated to rent or food or education or transportation? Perhaps they may even choose to save more or invest in learning new skills that will help them earn more in the future. You can't expect the poor to behave responsibly if they are never given any responsibility.

Moreover, giving the poor responsibility for managing their own lives will mean more choices and opportunities. That, in turn, will break up geographic concentrations of poverty that can isolate the poor from the rest of society and reinforce the worst aspects of poverty culture.

A GNI would also provide far better incentives when it comes to work, marriage, and savings. Because current welfare benefits are phased out as income increases, they often create high marginal tax rates that can discourage work or marriage. In the UK, for example, someone leaving welfare for a job paying half the average wage can lose more than half their wages in foregone benefits and new taxes.

And, of course, if set high enough, a guaranteed national income would lift almost everyone out of poverty.

But what sounds good in theory tends to break down when one looks at questions of implementation. There are serious trade-offs among cost, simplicity, and incentive structure. Attempts to solve problems in one area would raise questions in others.

If everyone in the UK were to receive a benefit sufficient to bring them above the at-risk-of-poverty threshold for a single person, it would cost more than £615bn. Clearly that's not affordable, so some limit would have to be put on who could receive the benefit.

If so, the programme would not be universal but means-tested, perhaps with some form of negative income tax, with the benefit being phased out as income from other sources rises. But that would recreate the work disincentives of the current system. And it would import all the complexity and opaqueness of the tax code.

Those things which make the GNI look so good on the drawing board fade away when you consider how to put it into practice.

This does not mean that we should reject the idea in its totality. But it does mean that we should proceed slowly and with caution in evaluating or implementing any such proposal. There are simply too many unanswered questions.

In the meantime, there are small steps that can move policy in the right direction. Programmes should be consolidated, and benefits provided in cash directly to recipients. The UK should continue to implement the Universal Credit.

Opponents of the welfare state have long criticised its supporters for believing that good intentions justified even failed programmes. In considering some form of a universal basic income, we should avoid falling into the same trap.

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